

**Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing on the President's International Affairs Budget
with Secretary of State Colin Powell
February 26, 2004**

Opening Statement:

Thank you Mr. Chairman for convening this hearing and thank you Mr. Secretary for once again coming up to testify on the budget proposal before us.

I think it may be most appropriate to start with the headline from this morning's paper which should sober us all with respect to where this is all heading. That is, these massive deficits that now Chairman Greenspan has said will require cuts in Social Security in order to, in part, respond to where this is all headed. Yesterday, Chairman Greenspan called for those cuts in Social Security.

This is something I have been concerned about, and have been warning about for three years, that the budget policies of the President are inevitably and inexorably taking us in this direction. We have record budget deficits now, and the President proposes further cutting the revenue base and adding to spending. That can only make the deficit worse, more serious, and put more pressure on recommendations like the one the Chairman made yesterday to cut Social Security benefits.

When I look at the President's budget for this year and compare it to previous years in international, what I see is a disturbing pattern that the budget proposed by the President is not the real budget, not the real budget for international affairs, not the real budget in other areas as well, because time after time the President has come back to us and asked us for significant increases in what he had proposed in his initial budget. That is certainly true in international affairs, where he came back and asked for \$1.3 billion more after he submitted his budget in 2002, asked for \$8 billion more in 2003, and then last year came back and asked for \$21.6 billion more than his initial budget request. Mr. Secretary, I would very much like to hear from you whether we can expect another large supplemental for international affairs in 2005.

In the President's budget proposal for 2005, international affairs is receiving the largest percentage increase in any area, a 16 percent increase in budget authority. In comparison, the President proposes to increase homeland security by five percent, defense by four percent and cut all other domestic spending by four percent, when measured against CBO's baseline.

As you know, Mr. Secretary and every member of this committee knows, our budget deficit is skyrocketing. We have a deficit that is forecast at \$521 billion this year. I personally believe it will not be that high, but nonetheless it will clearly be a record, much higher than any previous deficit, at least \$100 billion more than any of what we have seen before.

And the President has told us, 'Well, don't worry. The deficits are going to be cut in half over the next five years.' I don't believe that. I don't think that is an accurate report to the American people on our fiscal condition. I don't think it comes close.

The President says we're going to have a deficit of \$237 billion in the fifth year. But the only way he gets there is that he just leaves out things. He leaves out any additional defense expenditure for the war on terror past September 30th. He leaves out dealing with the alternative minimum tax. And most significantly, he leaves out the money he is going to have to pay back to Social Security and Medicare that he's taking from the trust funds.

So I believe we have got to tackle this in a very aggressive way and we have to go after the spending side of the equation, absolutely. We also have to look to the revenue side of the equation because the revenue side of the equation is where the biggest gap has opened. This year OMB is telling us that revenue will fall to 15.7 percent of GDP, the lowest since 1950.

Mr. Secretary, I would like to bring you back to something you said two years ago in testifying before this committee. I asked you then how the nation could afford the President's proposed increase in the international affairs budget, and I asked you if we should cut spending in other areas, or raise revenues to pay for it. And this was your answer: "I think where we are right now is that for the foreseeable future, for the next several years, we may well have to increase the debt, as your chart shows, in order to deal with these priorities."

I think in light of what Chairman Greenspan said yesterday that it is appropriate to ask you, is that still the right answer? Can we afford to continue on this course of borrowing and borrowing and borrowing? Borrowing from Social Security, borrowing from the Medicare Trust Fund, borrowing from the Japanese and the Chinese and the South Koreans, borrowing from the so-called Caribbean Banking Centers, hundreds of billions of dollars to float this boat – whether that can possibly continue?

Mr. Secretary, I noticed in a recent *Newsweek* column from Fareed Zakaria, a foreign affairs commentator who has often been a supporter of the President's international policies, and I'll conclude on this note, "The greatest threat to America's primacy in the world comes not from its overseas commitments, explains the historian Niall Ferguson...: 'It is the result of America's chronically unbalanced domestic finances.' The mounting federal budget deficits that now stretch out as far as the eye can see will mean – if history is any guide – sharp cutbacks in American military and foreign-affairs spending. We will see a forced retreat of America's foreign policy similar to the years after the Vietnam War – only the cuts are likely to be much, much deeper and the resulting chaos far greater."

My first question to you will be, is that going to be the legacy of this administration, and how can that outcome be avoided?

I thank you again Mr. Secretary for being here.

Closing Statement:

Mr. Secretary, one of our colleagues suggested that somehow I had misled on the Greenspan testimony yesterday. I did not. I was quoting directly from the *Washington Post* dispatch on what occurred there. And I'll just put it up. This is what I quoted from. "Fed Chief Urges Cut In Social Security," that's the headline, "Future Benefits Must Be Curtailed, Greenspan Warns." And I'd be happy to go through the story to set the record straight here on what was said and what I alluded to:

"Federal Reserve Chairman Alan Greenspan warned Congress yesterday that the federal government has promised more retirement benefits than it can pay for and must consider scaling back those commitments soon to avoid damaging the economy in the future.

"I am just basically saying that we are over-committed at this stage,' Greenspan told members of the House Budget Committee as they discussed the future costs of the Social Security and Medicare systems.

"Greenspan, who supported President Bush's 2001 tax cuts, again endorsed Bush's proposal to make the cuts permanent. However, he said in response to questions that raising taxes would inevitably be part of any successful effort to reduce the growing federal budget deficit. He stressed that he prefers cutting government spending as much as possible before increasing taxes.

"You don't have the resources to do it all,' Greenspan said.

"To curtail future spending, Greenspan urged Congress, as he has in the past, to consider cutting promised Social Security benefits to future retirees. Otherwise, he said, the growing burdens would create long-term budget deficits that would drive up interest rates and depress economic growth, making it even harder for the government to pay its bills."

That's what he said. It's about as clear as it can be. It's very interesting if one looks at what the President is proposing. He is proposing in his budget to borrow \$2.4 trillion from Social Security, that is funded by payroll taxes, and have tax cuts of \$2.4 trillion over that same period, that are largely going to income tax payers. That is the greatest shift of benefits from the many to the few in the history of this country. If one talks about class warfare, that is class warfare writ large.

Let me just ask you this on the supplemental. Will you be asking for a supplemental, as you have in the last three years?

Powell: In '05?

Conrad: Yes.

Powell: I would expect that there would be a supplemental in '05, sir.

Conrad: And can you give us any sense of how big it might be? Last year's was \$21 billion. Can you give us any sense?

Powell: No I can't sir. I really, I don't. I have no way of putting a number to it. To put a number to it, clearly, then it would be more likely in the '05 budget. It's up to the President ultimately to decide whether there will be a supplemental, and the amount. But I think our planning assumption is that there will be a need for an '05 supplemental.

Senator Bunning isn't here, but since you did put, I couldn't quite read the article, but I did hear you say as you read it twice the word, 'consider' reductions, and I think the point the Senator was making earlier was that Mr. Greenspan had said 'consider' whereas the headline suggests that he was advocating cuts.

Conrad: Well I don't think there is any question that he's advocating cuts. He's saying to us to consider. It's his recommendation. I think that's very clear. And that's not only clear based on what he said yesterday, it is clear based on what he said two weeks ago that got almost no press attention. So I think it is very clear he is saying to us we're over-committed, none of this adds up. And that's the problem we've got.

And when you send up a budget, and you tell us here that you're going to ask for a supplemental, but you don't provide a number, the thing we know is that the right answer is not zero. But what you've got in this budget, or more accurately the President has, is zero. We know that's not what it is going to be.